

## Message Text

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11  
ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 AID-05 COME-00 TRSE-00 OMB-01

CIAE-00 INR-07 NSAE-00 STR-04 SIL-01 LAB-04 /042 W  
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R 211832Z SEP 76  
FM AMEMBASSY PARIS  
TO USDA/WASHDC  
INFO SECSTATE WASHDC 5219  
ALL EC CAPITALS 0187

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TOFAS 292

MTN GENEVA FOR SHARP AND FRASER

E.O. 11652: N/A  
SUBJECT: WEEKLY DROUGHT SITUATION REPORT (CODE 24 AL)

REF: TOFAS (A) 281; (B) 286

1. RAINFALL HAS BEEN WIDESPREAD AND APPARENTLY NORMAL IN FIRST HALF SEPTEMBER. THIS WILL HAVE LITTLE IMPACT ON CROPS OR FORAGE HARVEST BUT HAS RESULTED IN PASTURE IMPROVEMENT. PRECISE PRECIPITATION DATA JULY AND AUGUST WILL BE REPORTED NEXT WEEK.

2. COMBINATION OF FAVORABLE PSYCHOLOGICAL IMPACT CAUSED BY RAINS PLUS DESIRE TO AWAIT SEPTEMBER 22 ANNOUNCEMENT BY GOF OF SPECIFIC MEASURES FOR AGRICULTURE (ALONG WITH BUDGET AND ANTI-INFLATION PACKAGE) HAS LED TO REDUCTION IN HIGH PRODUCTION OF BEEF. LATEST ESTIMATES OF BEEF PRODUCTION FOR WEEKS 33 THROUGH 36 ARE INCREASES OVER 1975 OF 38, 9, 7 AND 5 PERCENT, RESPECTIVELY. WE DISCUSSED THESE FIGURES AND OUTLOOK WITH ITEB (CATTLE-EM'S TECHNICAL INSTITUTE) WHICH HELD TO VIEW THAT HEAVY SLAUGHTER WAS INEVITABLE WITH APPROACH OF COLD WEATHER. ITEB REPORTED THAT IT HAD CONDUCTED FOLLOW-UP SURVEY TO

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VERIFY ITS PREVIOUSLY REPORTED FORAGE ESTIMATES AND STILL

FINDS THAT THERE IS AT LEAST 50 PERCENT DEFICIT IN FOR-  
AGE. IT FURTHER ESTIMATES THAT STRAW COLLECTED FOR FEED-  
ING, IF PROPERLY FORTIFIED, WOULD REDUCE THIS DEFICIT BY  
10 PERCENT BUT MUCH OF ON-FARM STOCKS HAVE ALREADY BEEN  
USED. ITEB AND MINAG LOOK FOR LOWER LEVELS MILK PRODUC-  
TION COMPARED WITH LAST YEAR FOR REMAINDER OF YEAR. IT  
REPORTS THAT CATTLE HERD ALREADY IN RELATIVELY  
POOR SHAPE WITH AVERAGE WEIGHT LOSS NOTED.

3. CROP PRODUCTION FIGURES PREVIOUSLY REPORTED ARE UN-  
CHANGED. A.G.P.M. SAYS INITIAL HARVEST CORN PARIS AREA  
POORER THAN ANTICIPATED. SHOULD HAVE ADDITIONAL DATA  
FROM A.G.P.M. MEETING AT NIMES SEPT. 22-23. POTATOES AND  
GRAPES NOW BEING HARVESTED. WINE PRODUCERS SEE VERY GOOD  
VINTAGE YEAR.

4. FARM PRICES: THE AGRICULTURAL ACCOUNTS COMMISSION  
WHICH PREPARED THE ESTIMATES OF LOST FARM REVENUE RECENT-  
LY RELEASED PRICE ESTIMATES WHICH REPORT THE COMBINED IM-  
PACT OF HIGHER EC SUPPORT PRICES AND PRODUCTION CHANGES  
ON PRICE LEVELS IN 1976 AS COMPARED WITH LAST YEAR.  
KEY FARM PRICE CHANGE ESTIMATES, IN PERCENTAGE TERMS,  
FOLLOW:

|               |                                                                                     |
|---------------|-------------------------------------------------------------------------------------|
| CEREALS       | 15.2 (EC THIRD COUNTRY IMPORTS WILL KEEP<br>PRICES NEAR THRESHOLD)                  |
| BEEF          | 3.0 (HIGH SLAUGHTER RATES KEEPING PRICES<br>DOWN)                                   |
| PORK          | 11.0 (MARKET CALM AFTER STRONG RISE IN WINTER)                                      |
| ALL RED MEATS | 7.3                                                                                 |
| CHICKEN       | 5.0 (PRODUCTION WILL RISE 5-7 PERCENT)                                              |
| EGGS          | 20.0 (STRONG PRICES DESPITE LEVEL PRODUCTION)                                       |
| MILK          | 9.0 (REDUCED PRODUCTION PUSHING PRICE<br>SLIGHTLY ABOVE INCREASE IN SUPPORT PRICES) |
| FRUIT         | MINUS 14.0 (GOOD PRODUCTION AFTER DISASTROUS<br>1975)                               |
| POTATOES      | 120.0 (SEVERE DROUGHT IMPACT ON PRODUCTION)                                         |
| SUGAR BEETS   | 11.0 (DESPITE POOR CROP WORLD SITUATION FOR<br>SUGAR CALM)                          |
| QUALITY WINES | 35.0 (GOOD DEMAND)                                                                  |

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ORDINARY WINES (LITTLE CHANGE EXPECTED; PRODUCTION STRONG)  
ALL CROPS     15.2  
ALL AGRI.PRODUCTS 10.7

5. EFFECTS OF DROUGHT ON FRENCH AGRICULTURAL TRADE JUST  
BEGINNING TO SHOW IMPACT AS SEASONALLY ADJUSTED TRADE  
DEFICIT TOTALED 2.5 BILLION FF IN AUGUST, UP FROM 1.7  
BILLION FF IN JULY. AGRICULTURAL IMPORTS ROSE FROM 2.9

BILLION FF IN JULY TO 3.5 BILLION FRENCH FRANCS IN AUGUST (PLUS 20.7 PERCENT), WHILE EXPORTS DECLINED FROM 3.7 TO 3.2 BILLION FF (-14.3 PERCENT). THUS LOSS OF 1.1 BILLION FF IN TRADE BALANCE DUE TO AGRICULTURE IN AUGUST. TRADE SOURCES ESTIMATE THAT AGRICULTURAL TRADE BALANCE COULD DECLINE 8 TO 10 BILLION FF DURING MARKETING YEAR 1976/77 DUE TO DROUGHT. AGATT PREPARING ESTIMATES TO BE REPORTED SOON.

6. MAJOR UNCERTAINTY SURROUNDING SEPTEMBER 22 ANNOUNCED DROUGHT ASSISTANCE IS SPECIFIC TAX MEASURES, AS GOF AND LIKELY APPROVE ASSISTANCE PACKAGE OF 5.6 BILLION FF (AND POSSIBLY ADDITIONAL 0.6 FOR DAIRY AID) BASED ON LOSSES CALCULATED BY SPECIAL COMMISSION REPORTED REFTEL B. THIS ONLY SLIGHTLY ABOVE AGATT ESTIMATE OF 5.0 BILLION FF DEVELOPED IN AUGUST. SPECIFICS OF PROGRAM WILL BE REPORTED SEPTEL.

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FM AMEMBASSY PARIS  
TO USDA/WASHDC  
INFO SECSTATE WASHDC 5220  
ALL EC CAPITALS 0188

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7. SIGNIFICANCE OF SEPTEMBER 22 MEASURES FOR AGRICULTURAL SECTOR MAY MARK IMPORTANT TURNING POINT IN FRENCH AGRICULTURAL POLICY, HIGHLIGHTING INABILITY OF PRICE SUPPORT SYSTEM TO MAINTAIN FARM INCOME AND FOCUSING ON HIGH LEVEL OF SUPPORT GIVEN TO FARM SECTOR. INCREASING EC PRICE SUPPORTS DID NOT PREVENT REAL FARM INCOME IN FRANCHE FROM DECLINING FOR PAST THREE CONSECUTIVE YEARS (10 PERCENT IN 74; 1 PERCENT IN 75; AND AT LEAST 10 PERCENT IN 76) AND AT SAME TIME FOOD PRICES ROSE SHARPLY

(12.9 PERCENT IN 74; 11.4 PERCENT IN 75; AND AT LEAST 10 PERCENT IN 1976). IF CURRENT AGRICULTURAL POLICY CONTINUES, FARM GROUPS MAY DEMAND 15-20 PERCENT INCREASE IN EC PRICE SUPPORTS FOR NEXT YEAR TO "COMPENSATE" FOR PAST LOSSES. INCREASES IN FARM, AND HENCE FOOD PRICES, WOULD SERIOUSLY UNDERMINE GOV PRIORITY OBJECTIVE OF CONTROLLING INFLATION.

8. CITING THE "FANTASTIC" INCOME INEQUALITIES IN FRANCE, WHICH IS BECOMING MAJOR ISSUE SINCE PUBLICATION OF OECD STUDY IN AUGUST, THE CADRES FO HAS JOINED NUMEROUS OTHER GROUPS IN DENOUNCING PROPOSED DROUGHT ASSISTANCE PACKAGE. EVEN AGMIN BONNET HAS INDICATED THAT ASSISTANCE SHOULD BE PRIMARILY FOR MOST ADVERSELY AFFECTED. THIS IS DIRECTLY COUNTER TO PRINCIPLE OF PRICE SUPPORTS WHICH ARE ESSENTIALLY INVERSELY RELATED TO NEEDS. LE FIGARO, IN FEATURE ARTICLE ON AGRICULTURE IN ITS SEP-UNCLASSIFIED

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TEMBER 18-19 EDITION OBSERVED THAT ACCEPTANCE OF THIS PRINCIPLE WOULD MARK A FUNDAMENTAL CHANGE IN FRENCH AGRICULTURAL POLICY IN FOLLOWING DIRECTION: A) COMPETITIVE INDUSTRIALIZED SECTOR OF AGRICULTURE (ABOUT 150,000 FARMS) WILL NO LONGER PROFIT FROM PREFERENTIAL SYSTEM; B) DEVELOPING FARM SECTOR (500,000 TO 600,000 FARMS) WILL CONTINUE TO BENEFIT FROM AID FROM STATE, LIKE IN MANY OTHER COUNTRIES, "INCLUDING US"; AND C) REST OF FARMERS (ELDERLY AND THOSE OWNING SMALL INEFFICIENT FARMS) MUST BE GIVEN ASSISTANCE (ALLOCATION DE SURVIE) UNLESS ONE WANTS MANY RURAL AREAS TO BE DESERTED. LE FIGARO CONCLUDES THAT 15 YEARS AFTER LAW OF AGRICULTURAL ORIENTATION OF 1960 AND 1962, IT IS URGENTLY NECESSARY TO REDEFINE DIRECTION OF FRENCH AGRICULTURE, WHERE PRODUCTIVITY HAS LEVELED OFF FOR THREE YEARS.

9. COMMENTS OF M. NEESER, PRESIDENT OF FRENCH WHEAT PRODUCERS' ASSOCIATION (AGPB) ARE PARTICULARLY COGENT. AT SEPTEMBER 15 AGPB PRESS CONFERENCE, NEESER SAID, INTER ALIA, THAT BECAUSE OF DROUGHT BARLEY AND CORN CROPS WOULD BE POOR BUT THAT INCREASE IN AREA PLANTED TO WHEAT WOULD ALLOW ABOUT SAME PRODUCTION AS LAST YEAR DESPITE FALL IN YIELDS. HE FORESAW LITTLE PROBLEM CONCERNING WHEAT IN DOMESTIC MARKET AND ADDED THAT FRANCE'S EXPORTS OF FLOUR WOULD BE MAINTAINED. REGARDING CORN, HOWEVER, SITUATION WAS BAD DOMESTICALLY, AND HE EXPRESSED SURPRISE THAT NUMEROUS CATTLE RAISERS HAD PURCHASED BARLEY AT PRICES AS HIGH AS DELIVERED PRICE OF IMPORTED CORN DESPITE CORN'S HIGHER NUTRITIVE VALUE FOR ANIMAL FEEDING. HE POINTED OUT THAT US SUPPLIES WERE LARGE, AND HE SAW NO REASON FOR "PANIC".

PASSING TO DISCUSSION OF AID TO AGRICULTURE, NEESER POINTED OUT THAT GLOBALIZATION OF ACCOUNTS DID NOT TAKE INTO CONSIDERATION DIFFERENCES IN GOOD AND BAD YIELDS AND THAT DIFFERENCES IN CROP YEARS ALSO CREATED INEQUALITIES. HE SAW TOTAL LOSS TO CEREAL GROWERS ALONE AS 2.4 BILLION FRANCS. FURTHERMORE, AGRICULTURAL REVENUE WAS AFFECTED BY STRONG RISE IN COSTS OF PRODUCTION. HE SAID THAT FRENCH AGRICULTURE IS PARTICULARLY SENSITIVE TO INFLATION BECAUSE EC FIXES ITS PRICES LARGELY ON BASIS OF UNCLASSIFIED

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RATE OF INFLATION OF MEMBER LEAST AFFECTED - THE FRG. HE CONCLUDED THAT IT WOULD BE NECESSARY TO HALT INFLATION TO PREVENT COSTLY AND COMPLEX SYSTEM OF MONETARY COMPENSATORY AMOUNTS FROM DESTROYING COMMUNITY.

NEESER REGRETTED FARMERS HAD, IN PUBLIC VIEW, IMAGE OF BEING CONCURRENTLY PRIVILEGED TAXPAYERS AND SUBSIDY BENEFICIARY. HE REITERATED HIS POSITION THAT AGRICULTURAL POLICY SHOULD BE REVIEWED. HIS FORMULA IS KNOWN AS: EQUAL REVENUE - EQUAL TAXES. HE ADDED THAT FISCAL EVALUATION SHOULD NOT BECOME AN AGRICULTURAL SPECIALTY.

10. CLEARLY, WITH LEADERS OF FRENCH AGRICULTURE LIKE BONNET AND NEESER COMMENTING AS REPORTED ABOVE, FRENCH AGRICULTURAL POLICY IS AT IMPORTANT CROSSROAD. MEASURES TO BE ANNOUNCED ON SEPTEMBER 22 ARE MORE LIKELY TO STIMULATE NATIONAL DEBATE THAN TO CHART NEW DIRECTION, WHICH FRANCE MAY NEED TO ACHIEVE ITS OBJECTIVE OF 20 BILLION FF AGRICULTURAL TRADE SURPLUS CALLED FOR IN ITS VIITH PLAN.

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